

**REPORT OF THE AUDIT OF THE
MCLEAN COUNTY
CLERK**

**For The Year Ended
December 31, 2002**



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CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Larry B. Whitaker, McLean County Judge/Executive
Honorable Linda R. Johnson, McLean County Clerk
Members of the McLean County Fiscal Court

The enclosed report prepared by Berger & Company, CPA, PSC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of McLean County, Kentucky, for the year ended December 31, 2002.

We engaged Berger & Company, CPA, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Company, CPA, PSC evaluated the McLean County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE
MCLEAN COUNTY
CLERK**

**For The Year Ended
December 31, 2002**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MCLEAN COUNTY CLERK

**For The Year Ended
December 31, 2002**

Berger & Company CPA, PSC has completed the McLean County Clerk's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$162 from the prior calendar year, resulting in excess fees of \$18,479 as of December 31, 2002. Revenues decreased by \$7,735 from the prior year and disbursements decreased by \$7,573.

Report Comment:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

The Clerk's deposits were uninsured and unsecured in the amount of \$38,394.

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of McLean County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

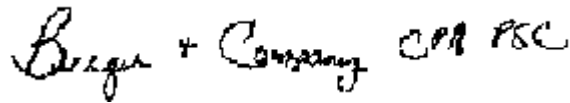
In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2003, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Members of the McLean County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink that reads "Berger & Company CPA, PSC". The signature is written in a cursive, flowing style.

Berger & Company CPA, PSC

Audit fieldwork completed -
November 24, 2003

MCLEAN COUNTY
LINDA R. JOHNSON, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

State Fees For Services		\$	5,399
Fiscal Court			5,461
Licenses, Fees, and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	290,624	
Usage Tax		943,227	
Tangible Personal Property Tax		600,385	
Lien Fees		2,956	
Licenses-			
Fish and Game		6,692	
Marriage		1,976	
County Decal Fees		141,168	
Deed Transfer Tax		15,879	
Delinquent Tax		86,832	2,089,739
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	7,495	
Real Estate Mortgages		15,851	
Chattel Mortgages and Financing Statements		34,054	
Powers of Attorney		377	
All Other Recordings		12,098	
Charges for Other Services-			
Candidate Filing Fees		2,950	
Copywork		4,155	76,980
Other:			
Refunds and Overpayments	\$	2,705	
Miscellaneous		6,799	9,504
Interest Earned			1,428
Total Receipts		\$	2,188,511

The accompanying notes are an integral part of this financial statement.

MCLEAN COUNTY
 LINDA R. JOHNSON, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 231,802

Usage Tax 914,931

Tangible Personal Property Tax 251,025

Licenses, Taxes, and Fees-

Fish and Game 6,169

Delinquent Tax 11,809

Legal Process Tax 8,839

Candidate Filing Fees 1,260 \$ 1,425,835

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 55,398

Delinquent Tax 12,374

Deed Transfer Tax 15,085

County Decal Fees 137,086 219,943

Payments to Other Districts:

Tangible Personal Property Tax \$ 270,549

Delinquent Tax 41,024 311,573

Payments to Sheriff 934

Payments to County Attorney 12,343

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 74,791

Part-Time Salaries 16,469

Materials and Supplies-

Office Supplies 3,374

The accompanying notes are an integral part of this financial statement.

MCLEAN COUNTY
LINDA R. JOHNSON, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Year Ended December 31, 2002
(Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay (Continued):

Other Charges-			
Meetings and Travel	\$	2,163	
Dues		550	
Utilities		478	
Refunds		6,482	
Miscellaneous		4,508	
Postage		4,098	
Software Management		10,000	
Capital Outlay-			
Office Equipment		12,114	\$ 135,027
Total Disbursements			<u>\$ 2,105,655</u>
Net Receipts			\$ 82,856
Less: Statutory Maximum			<u>57,812</u>
Excess Fees			\$ 25,044
Less: Expense Allowance	\$	3,600	
Training Incentive Benefit		2,965	<u>6,565</u>
Excess Fees Due County for 2002			\$ 18,479
Payments to County Treasurer - February 25, 2003			<u>18,479</u>
Balance Due at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months and 6.34 percent for the last six months of the year.

MCLEAN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2002
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 8, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$38,394 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 8, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	100,000
Uncollateralized and uninsured	<u>38,394</u>
Total	<u><u>\$ 238,394</u></u>

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$10,710 in calendar year 2002. Interest earned during the year totaled \$31. No funds were expended during calendar year 2002. The unexpended grant balance is \$10,741 as of December 31, 2002.

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COMMENT AND RECOMMENDATION

MCLEAN COUNTY
LINDA R. JOHNSON, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2002

The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On April 8, 2002, \$38,394 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. After the previous year's exit conference on November 7, 2002, which had the same comment about insufficient collateral to protect deposits, the County Clerk did increase her pledged securities by \$100,000. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposit of public funds at all times.

County Clerk's Response:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the McLean County Clerk for the year ended December 31, 2002, and have issued our report thereon dated November 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the McLean County Clerk's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McLean County Clerk internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

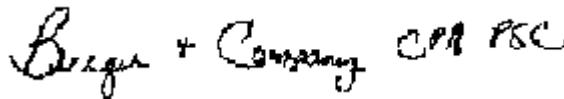
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company CPA, PSC

Audit fieldwork completed -
November 24, 2003

